

AUDIT MEMO

SUBJECT: Corrective Action Plans for Single Audit Findings and New Reporting Requirements	NO.: 11-01
REFERENCES: California Single Audit Report for Fiscal Year 2009-10	DATE ISSUED: April 2011

PURPOSE

This memo provides departments with actions to be taken on findings reported in the fiscal year 2009-10 California Single Audit Report.

BACKGROUND

Annually, the Bureau of State Audits (Bureau) conducts the California statewide Single Audit—a combination of an independent audit of the state's basic financial statements and the independent audit of major federal programs or program clusters. From July 1, 2009 through June 30, 2010, California received approximately \$120.7 billion in federal funds.

The Bureau identified weaknesses in internal controls and with federal compliance requirements. For the year ended June 30, 2010, the Bureau identified 82 findings, which included 74 deficiencies in internal controls. Also, of the 32 major programs audited, 10 received qualified opinions. This is due in part to the seriousness of the state's failure to comply with certain federal requirements.

The Department of Finance (Finance), consistent with its responsibility for the business policies and practices of the state, provides the leadership to ensure such policies and practices are appropriate. Finance has assigned the Office of State Audits and Evaluations (OSAE) the responsibility to provide direction on statewide issues, and to monitor the corrective actions taken by the departments.

ISSUE

Due to the heightened scrutiny of federal awards and the recurring finding that the state does not report federal expenditures by federal catalog number, departments need to timely address and mitigate their single audit findings and ensure they can report federal expenditures by June 30, 2011.

REQUIREMENTS

In accordance with its responsibility to provide direction on statewide issues and to monitor the corrective actions taken, OSAE is requesting departments who receive federal awards to perform the following:

1. Review the 2009-10 Single Audit Report sections:
 - *Internal Control Compliance and Issues Applicable to the Financial Statements and State Requirements*
 - *Compliance and Internal Control Issues Related to Specific Grants Administered by Federal Departments*

2. Develop, implement, and monitor the corrective action plans for each finding. By June 2011, OSAE will provide each department with the list of their single audit findings and request specific information on the findings' status as part of the state's continuing annual single audit. In addition, OSAE may be contacting departments to follow up regarding: (1) their corrective action status report, and (2) their corrective action plan to address the Bureau's findings until the findings are fully corrected. In accordance with OSAE's responsibility to provide direction on statewide issues, OSAE may consult with departments to find effective audit resolutions, which will help strengthen departments' internal controls and improve their administration of federal awards.
3. For departments that have an internal audit unit, the *International Standards for the Professional Practice of Internal Auditing* require auditors to follow-up by ascertaining appropriate action has been taken on reported audit findings, including the determination of whether actions taken remedy the underlying conditions. In addition, the Omnibus Audit Accountability Act of 2006 outlines the internal auditing standards and processes. Accordingly, internal auditors should establish policies and procedures to regularly follow-up on all of their department's single audit findings.
4. OSAE will contact all departments who receive federal awards by June 30, 2011 to ensure they are complying with Budget Letter (BL) 10-20 issued on August 9, 2010. This BL requires departments to prepare Report No. 13 for all federal grants or contracts and provide federal expenditures by the federal catalog number.

CONTACTS

Please distribute this Audit Memo to the appropriate staff within your organization. If you have any questions, please contact Jennifer Whitaker, Manager, at (916) 322-2985, Extension 3165. A complete copy of the 2009-10 Single Audit Report can be obtained on our Internet site at: http://www.dof.ca.gov/osae/audit_reports/documents/2009-10SingleAuditReport.pdf.



David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations